

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

MARTIN GAS, INC., FOR AN)
ADJUSTMENT OF RATES) CASE NO. 9291

O R D E R

In its Order of December 20, 1985, the Commission set out certain accounting and reporting requirements in regard to excessive line-loss cost recovery. The Commission ordered Martin Gas, Inc., ("Martin") to account for cost recovery of line loss in excess of 5 percent on a monthly basis as customer advances for construction and not as a revenue item. Furthermore, the Commission required that extraordinary repairs to reduce excessive line loss must be charged against customer advances for construction with any future unabsorbed balance remaining in customer advances for construction to be amortized over a reasonable time period.

In its Order of January 31, 1986, the Commission granted Martin additional revenues to be billed to each of Martin's customers as a monthly surcharge clearly identified as a temporary surcharge to reduce line loss. The surcharge was required to be deposited in a separate escrow account until such time as plans to reduce excessive line loss are finalized and a further Order is issued. The surcharges collected were required to be accounted for in Account No. 128--Other Special Funds and these surcharges

billed were required to be accounted for as Customer Advances for Construction in Account No. 252 and not as a revenue. The surcharge was to continue for no longer than 12 months from January 31, 1986, and no monies were to be expended from the escrowed surcharge until authorized by the Commission in a subsequent Order. The Commission further ordered Martin to file monthly reports of the amount of surcharge billed, collected and deposited in escrow.

This Order addresses the Commission's findings and determinations in regard to the disposition of monies received from excessive line loss recovery and the temporary surcharge to reduce excessive line loss.

According to the Uniform System of Accounts, Account No. 252--Customer Advances for Construction shall include advances by customers for construction which are to be refunded either wholly or in part. When a customer is refunded the entire amount to which he is entitled, according to the agreement or rule under which the advance was made, the balance, if any, remaining in this account shall be credited to the respective plant account. It is under these guidelines of the Uniform System of Accounts that the Commission intends to monitor the funds collected from the temporary surcharge and excessive line loss allowed for rate-making purposes in this case.

Accounting and Reporting Considerations

The Order of December 20, 1985, allowed full recovery of 54,362 Mcf of purchased gas on sales of 45,095 Mcf of gas. The blended cost of gas at that time was \$4.313 per Mcf. The

allowance of the complete line loss of 17.05 percent amounts to a per Mcf charge above the typical 5 percent line loss of 65.9¢. In the Order of January 31, 1986, the Commission granted Martin a \$3.12 surcharge per each customer per month.

To effectively monitor the collection and use of these funds the Commission is of the opinion that a monthly report provided to the Commission no later than 25 days after the close of the calendar month is necessary. These reports should include the following:

1. The Mcf volume of gas sold, current month and cumulative since December 20, 1985.
2. The Mcf volume of gas purchased, current month and cumulative since December 20, 1985.
3. The total amount billed from the \$3.12 surcharge, current month and cumulative since January 31, 1986.
4. The total amount collected from the \$3.12 surcharge, current month and cumulative since January 31, 1986.
5. The total amount billed from the 65.9¢ per Mcf cost recovery of excessive line loss, current month and cumulative since December 20, 1985.
6. The total amount collected from the 65.9¢ per Mcf cost recovery of excessive line loss, current month and cumulative since December 20, 1985.
7. Amount deposited into escrow account for the \$3.12 surcharge, current month and cumulative since January 31, 1986.

8. Amount deposited into escrow accounts from revenues derived from the 65.9¢ per Mcf cost recovery of excessive line loss, current month and cumulative since December 20, 1985.

9. Complete details of the use of the proceeds of the 65.9¢ per Mcf cost recovery of excessive line loss not deposited into the escrow account, current month and cumulative since December 20, 1985.

10. The journal entries to record credits to Account No. 252--Customer Advances for Construction resulting from the collection of the surcharge and cost recovery of excessive line loss.

11. Complete details of all expenditures from escrowed funds to at least include:

- a. The vendor;
- b. A description of purchase;
- c. The date; and
- d. The amount.

12. Complete details of all additional expenditures for extraordinary repairs and replacements to at least include:

- a. The vendor;
- b. A description of purchase;
- c. The date; and
- d. The amount.

13. The journal entries recording any debit entries to Account No. 252--Customer Advances for Construction.

14. Detailed income statement and balance sheet.

15. Outstanding balance to Columbia Gas.

16. Interest accrued on balance owed to Columbia Gas.

As this Order is being issued during May 1986, reports for December 1985, January, February and March 1986, should be provided with the April 1986 report due May 25, 1986.

Engineering and Reporting Considerations

The Commission is of the opinion that construction on the Martin Gas system during 1986 should focus primarily on the replacement of mains. An exception will be where a threat to public safety exists or significant line loss is occurring from a leak on pipe other than a main. The Commission is aware that some service lines and meters need replacement, and that for economical and logistical reasons an unsafe service line and meter should be replaced at the same time that section of main is replaced. However, the Receiver should act prudently when deciding to expend funds for service line and meter replacement, keeping in mind that the principal purpose of the surcharge is to replace mains.

A construction schedule is provided based upon the presumption that Martin's principal source of line loss is leaks on its gas mains. It is also necessary that a system map be developed for Martin Gas. The Commission has been advised by the Receiver that maps already exist which depict the gas lines that comprise the Martin Gas system. However, a preliminary review of these maps shows that additional detail needs to be included. Therefore, the construction schedule requires the Receiver to add certain information to make the system map complete and more meaningful.

In the course of replacing mains the Receiver has requested that the construction be coordinated with the current work on

water mains being conducted by the city of Martin. While the Commission's regulations do not specifically prohibit gas mains and water mains from occupying the same trench, such a practice can increase the potential for damage to the gas line from excavators and others. However, this practice is followed frequently and with the proper safety precautions the potential for damage to the gas main can be minimized. The Receiver is reminded that 807 KAR 5:022, Section 7(12)(e), requires that tracer wire with warning tape, or tracer tape, be used to help locate the pipe and warn excavators of the presence of a plastic gas main. Martin Gas also needs to establish an effective working relationship with the Martin Water Company to minimize the potential for damage to the gas mains in the future. The construction schedule provides guidelines which the Receiver should follow regarding the use of a common trench for gas and water mains.

Construction Schedule.

Step 1. A system map shall be developed for the Martin Gas system. Using the maps produced for the city of Martin's water system, which include the location of gas lines, additional detail shall be added which depicts:

- a. The size of the various lines which comprise the Martin Gas system.
- b. Location of the key valves.
- c. Border station location.
- d. Location of regulator stations.
- e. System feed points.
- f. Operating and test pressures.

g. Right-of-way ownership.

h. Mile post information.

This information may be included while Step 2 is in progress. However, the system map shall be completed and a copy submitted to the Commission for review no later than 90 days from the date of this Order. With the copy of the system map the Receiver shall also provide an itemized statement which lists all the costs incurred for the development of the system map.

Step 2. Upon receipt of this Order the Receiver shall begin construction on the Martin Gas system to replace all sections of main that have deteriorated to the point that a threat to public safety exists or significant line loss is occurring due to their condition. This construction shall continue through the remainder of the calendar year, or as long as weather permits.

For the reasons stated herein the Receiver may coordinate such construction with the on-going activities of the Martin Water Company as they proceed with installation of new water mains. However, to the extent that the Receiver chooses to use a common trench with the water mains the following guidelines shall be followed:

a. In all instances the gas main shall be located above the water main.

b. Separation between the gas and water mains shall be a minimum of eighteen inches.

c. Tracer wire with warning tape, or tracer tape, shall be installed with the gas mains with a minimum six inches of separation from the gas mains.

d. The common trench shall be a minimum of three feet wide in order to allow the required separation to be accomplished.

At the end of each calendar month the Receiver shall submit a report to the Commission regarding the construction activity on the Martin Gas system that has been completed during that month. Each report shall include: identification (by location) of the section of main replaced and any service lines and meters that were replaced; the size, type and amount of pipe installed; and the costs incurred for materials, labor, paving and related activities to complete the construction.

FINDINGS AND ORDERS

The Commission, after consideration of the record and being advised, is of the opinion and finds that:

1. If Martin is to successfully implement a program of excessive line loss reduction, at a minimum, it must comply with the accounting and engineering considerations herein.

2. Martin should be authorized to make expenditures from escrowed funds in Account No. 128--Other Special Funds for extraordinary repairs and replacements in accordance with the accounting and engineering considerations herein.

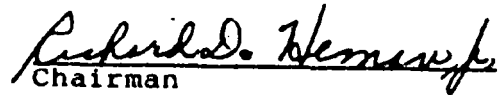
IT IS THEREFORE ORDERED that:

1. Martin shall comply with the accounting and engineering considerations herein described.

2. Martin is authorized to make expenditures from Account No. 128--Other Special Funds for extraordinary repairs and replacements.

Done at Frankfort, Kentucky, this 7th day of May, 1986.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary